



WEEKLY ECONOMIC DIGEST



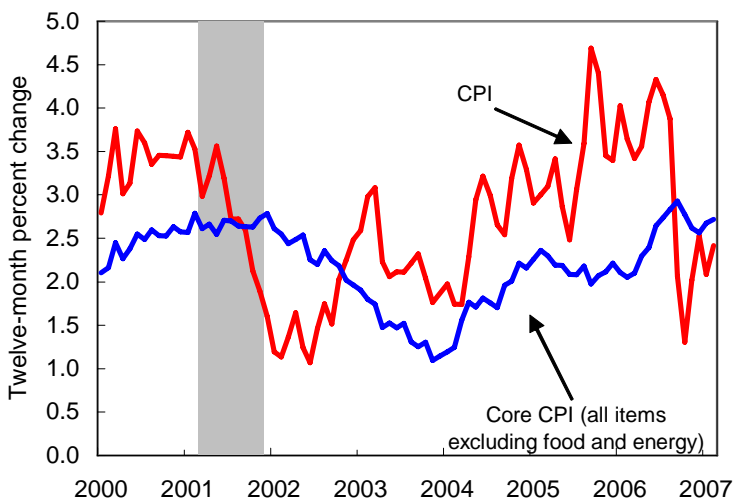
JOINT ECONOMIC COMMITTEE

SENATOR CHARLES E. SCHUMER (D-NY) — CHAIRMAN

March 16, 2007

Facing Mixed Economic Signals, Fed Likely to Stand Pat

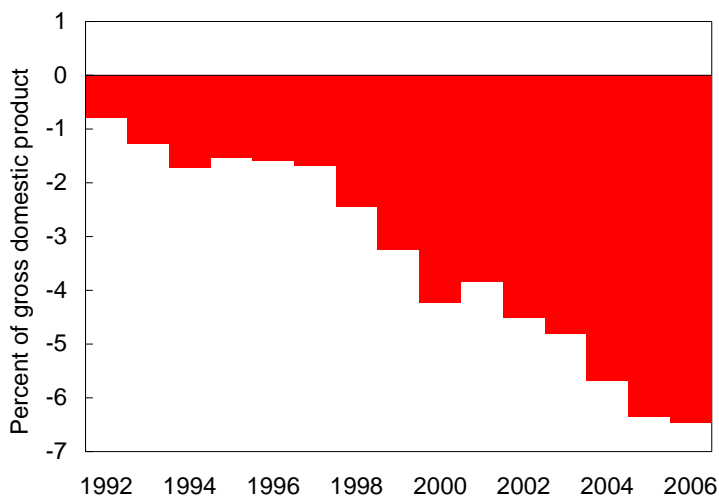
Consumer Price Indexes



Sources: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

U.S. Current Account Balance



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

- **Core inflation moderated somewhat in February.** The consumer price index (CPI) rose by 0.4 percent last month to a level 2.4 percent higher than a year ago (see top chart). The core CPI (which excludes the volatile food and energy prices) rose by 0.2 percent last month, following a 0.3 percent rise in January. Over the past 12 months the core CPI has risen by 2.7 percent, and further moderation in core inflation would be necessary to bring it into the Federal Reserve's long-range "comfort zone."
- **Retail sales and industrial production suggest that economic growth is still modest.** Total sales at retail establishments and food services rose by 0.1 percent in February, following no gain in January. Financial markets had expected a 0.3 percent rise in sales. Over the past 12 months, total sales have been up a modest 3.2 percent. Industrial production in manufacturing, mining, and utilities rose by 1.0 percent last month, but most of the gain came from a 6.7 percent increase in the output of utilities as a result of cold February temperatures. Manufacturing output grew by 0.4 percent in February and was just 2.8 percent higher than it was a year earlier.
- **The Fed is expected to keep interest rates unchanged.** The Federal Reserve has said that incoming data will determine its monetary policy actions going forward. With the latest news on inflation and retail sales, financial markets expect that next week the Fed will keep its target interest rate for federal funds at the 5¼ percent rate it has maintained since last June.
- **The current account deficit widened again in 2006.** The U.S. current account balance, which combines the balance on trade in goods and services with the balance on international income flows and transfers, rose to a record deficit of \$856.7 billion—6.5 percent of gross domestic product (GDP)—in 2006 (see bottom chart). For the first year on record, the balance on income flows shifted into deficit.

The Economy at a Glance	Feb	Jan	Dec	Nov	2006 Qtr 4	2006 Qtr 3	2006 Qtr 2	2006 Qtr 1	2006	2005
Economic Activity										
Real GDP (% growth)	—	—	—	—	2.2	2.0	2.6	5.6	3.3	3.2
Industrial Production (% growth)	12.7	-3.5	10.0	-4.7	-1.2	4.0	6.5	5.0	3.9	3.2
Capacity Utilization (level, %)	82.0	81.4	81.7	81.3	81.6	82.3	82.0	81.2	81.8	80.2
Civilian Unemployment Rate (level, %)	4.5	4.6	4.5	4.5	4.5	4.7	4.7	4.7	4.6	5.1
Housing Starts (thousands)*	n.a.	1408	1643	1565	1562	1714	1873	2123	1818	2073
Real Disposable Personal Income (% growth)	n.a.	6.7	1.7	3.1	5.3	3.2	-1.5	4.6	2.6	1.2
Retail Sales (% growth)	1.1	-0.5	14.9	5.1	0.3	3.7	3.1	13.2	6.3	7.2
Personal Saving Rate (level, %)	n.a.	-1.2	-1.4	-1.1	-1.2	-1.4	-1.4	-0.3	-1.1	-0.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	4.9	2.4	4.9	0	-2.1	3.1	5.0	1.9	3.2	3.4
Core CPI-U Inflation (% growth)	2.4	3.7	1.2	1.2	1.9	3.0	3.3	2.4	2.5	2.2
Compensation per hour (% growth)	—	—	—	—	3.2	4.1	3.6	2.4	3.1	3.3
Output per hour (% growth)	—	—	—	—	1.6	-0.5	1.2	3.5	1.6	2.1
Financial Markets										
T-bill Rate, 3-month (level, %)	5.03	4.98	4.85	4.94	4.90	4.91	4.70	4.39	4.73	3.15
T-note Rate, 10-years (level, %)	4.72	4.76	4.56	4.60	4.63	4.90	5.07	4.57	4.80	4.29
Federal Funds Rate (level, %)	5.26	5.25	5.24	5.25	5.25	5.25	4.91	4.46	4.97	3.22
Dow Jones Industrial Avg (index level)	12631	12513	12378	12185	12175	11274	11189	10996	11409	10548

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

*Subject to revision over the next week.

Upcoming Economic Releases:

- **New Residential Construction: February 2007** [Release: Tuesday, March 20]
- **Federal Open Market Committee statement on monetary policy** [Wednesday, March 21]
- **Existing Home Sales: February 2007** [Release: Friday, March 23]